

NJ DIVISION OF INVESTMENT

Director's Report

State Investment Council
July 26, 2023

“The mission of the New Jersey Division of Investment is to achieve the best possible return at an acceptable level of risk using the highest fiduciary standards.”

Capital Markets Update (through May 31, 2023)

	Monthly	Calendar YTD	Fiscal YTD	One Year	Three Years (Annualized)	Five Years (Annualized)
<u>Global Equity Indices</u>						
MSCI ALL Country World Index	-1.07	7.68	10.13	0.85	10.06	6.77
<u>US Equity Indices</u>						
MSCI USA	0.65	9.81	12.10	2.82	12.51	10.88
Russell 1000	0.47	9.29	11.79	2.42	12.42	10.59
Russell 2000	-0.93	-0.06	3.83	-4.71	9.19	2.71
Russell 3000	0.39	8.73	11.32	2.01	12.22	10.05
Russell Growth	4.30	19.77	18.40	9.14	12.30	13.07
Russell Value	-3.76	-1.65	4.18	-5.00	11.71	6.42
<u>Non-US Equity Indices</u>						
MSCI EAFE	-4.23	6.81	13.60	3.06	8.52	3.21
MSCI EAFE Canada	-4.36	6.24	12.09	1.54	8.83	3.38
MSCI Emerging Markets	-1.68	1.05	-1.97	-8.49	3.47	-0.67
<u>Fixed Income Indices</u>						
Bloomberg Barclays U.S. Aggregate	-1.09	2.46	-0.58	-2.14	-3.65	0.81
Bloomberg Barclays U.S. Treasury	-1.16	2.35	-1.39	-2.26	-4.52	0.59
Bloomberg Barclays U.S. Credit	-1.39	2.81	1.08	-1.56	-2.90	1.50
Bloomberg Barclays U.S. High Yield	-0.92	3.64	7.27	0.05	2.90	3.09
<u>Real Estate</u>						
Bloomberg U.S. REIT Index	-4.14	-3.33	-11.77	-18.05	3.92	3.53

Source: Bloomberg

Capital Markets Update (through June 30, 2023)

	Monthly	Calendar YTD	Fiscal YTD	One Year	Three Years (Annualized)	Five Years (Annualized)
<u>Global Equity Indices</u>						
MSCI ALL Country World Index	4.84	13.94	16.53	16.53	11.36	8.10
<u>US Equity Indices</u>						
MSCI USA	6.07	17.13	19.57	19.57	14.70	12.17
Russell 1000	6.14	16.67	19.34	19.34	14.65	11.90
Russell 2000	7.07	8.06	12.27	12.27	11.30	4.17
Russell 3000	6.19	16.16	18.93	18.93	14.44	11.37
Russell Growth	6.24	28.05	26.59	26.59	13.94	14.38
Russell Value	6.12	4.95	11.18	11.18	14.79	7.76
<u>Non-US Equity Indices</u>						
MSCI EAFE	2.84	11.67	18.77	18.77	9.03	4.39
MSCI EAFE Canada Net Total Ret	3.13	11.29	17.41	17.41	9.43	4.58
MSCI Emerging Markets	2.54	4.89	1.75	1.75	2.36	0.93
<u>Fixed Income Indices</u>						
Bloomberg Barclays U.S. Aggregate	0.01	2.09	-0.94	-0.94	-3.96	0.77
Bloomberg Barclays U.S. Treasury	-0.42	1.59	-2.13	-2.13	-4.83	0.44
Bloomberg Barclays U.S. Credit	0.58	3.13	1.39	1.39	-3.35	1.65
Bloomberg Barclays U.S. High Yield	1.59	5.38	9.06	9.06	3.15	3.35
<u>Real Estate</u>						
Bloomberg U.S. REIT Index	5.96	1.87	-7.02	-7.02	5.37	3.80

Asset Allocation and Net Returns by Asset Class May 31, 2023

ASSET ALLOCATION As of May 31, 2023					PERFORMANCE (for periods ending May 31, 2023) ⁽¹⁾									
Asset Class	Mkt Value	Actual (%)	Target (%)	Difference	FYTD		YTD		Three Year		Five Year			
					NJ	Bench	NJ	Bench	NJ	Bench	NJ	Bench		
GLOBAL GROWTH														
US Equity	24,040	27.11%	27.00%	0.11%	11.53	11.55	8.90	8.89	12.47	12.47	9.88	10.35		
Non-US Dev Market Eq	11,618	13.10%	13.50%	-0.40%	11.71	11.83	6.17	6.22	8.54	8.72	3.51	3.33		
Emerging Market Eq	4,411	4.98%	5.50%	-0.52%	1.99	-2.11	2.70	0.93	5.41	3.41	0.43	-0.62		
Private Equity	10,887	12.28%	13.00%	-0.72%	2.21	-4.31	2.88	2.44	18.16	16.87	13.68	15.45		
TOTAL GLOBAL GROWTH	50,967	57.48%	59.00%	-1.52%	8.57	7.50	6.40	6.35	12.09	12.51	8.24	9.36		
REAL RETURN														
Real Assets	2,198	2.48%	3.00%	-0.52%	1.11	7.04	1.07	3.38	17.25	11.44	5.33	6.02		
Real Estate	5,178	5.84%	8.00%	-2.16%	-4.62	-0.55	-2.32	-5.17	9.32	8.97	6.65	7.71		
TOTAL REAL RETURN	7,376	8.32%	11.00%	-2.68%	-2.95	1.75	-1.31	-2.60	11.49	10.13	6.28	7.60		
INCOME														
Investment Grade Credit	6,349	7.16%	7.00%	0.16%	0.12	0.32	2.55	2.72	-3.76	-3.53	1.29	1.20		
High Yield	3,211	3.62%	4.00%	-0.38%	7.34	7.28	3.56	3.65	3.14	2.88	2.85	3.08		
Private Credit	6,428	7.25%	8.00%	-0.75%	5.52	1.90	4.47	4.38	11.86	5.75	6.46	4.31		
TOTAL INCOME	15,989	18.03%	19.00%	-0.97%	3.62	1.93	3.54	3.52	3.14	0.68	3.46	2.76		
DEFENSIVE														
Cash Equivalents	8,182	9.23%	4.00%	5.23%	3.45	3.12	1.97	1.79	1.34	1.12	1.83	1.49		
U.S. Treasuries	3,556	4.01%	4.00%	0.01%	-1.19	-1.39	2.39	2.35	-4.46	-4.53	0.58	0.59		
Risk Mitigation Strategies	2,578	2.91%	3.00%	-0.09%	1.72	5.98	0.82	3.04	7.20	4.20	5.53	4.58		
TOTAL DEFENSIVE	14,317	16.15%	11.00%	5.15%	1.78	2.07	1.93	2.32	0.42	-0.36	2.02	1.65		
OTHER														
OPPORTUNISTIC PE	0	0.00%												
OTHER	15	0.02%												
TOTAL FUND ⁽²⁾	88,665	100.00%			5.36	5.39	4.48	4.44	8.63	8.59	6.27	7.29		

(1) Returns are preliminary, unaudited, and net of all fees

(2) Total Pension Fund excludes Police and Fire Mortgage Program

Notes: Sum of components may not equal totals due to rounding. Certain asset class returns, including private equity, real assets, real estate, and private credit do not include up-to-date valuations and benchmark returns for these asset classes are presented on a lagged basis. This results in performance comparisons that may be less meaningful.

State of New Jersey

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ELIZABETH MAHER MUOIO
State Treasurer

SHEILA Y. OLIVER
Lt. Governor

SHOAIB KHAN
Director

July 21, 2023

To: State Investment Council

From: Shoaib Khan
Director

Subject: Recent Alternative Investment Fund Commitments

N.J.A.C. 17:16-69.9, as amended as of November 1, 2021, requires the Division to provide an informational memorandum to the Council on each binding commitment made by the Division as part of its Alternative Investment Program.

This memorandum provides information regarding the following binding commitments which were made between April 21, 2023, and July 18, 2023:

Name	Closing Date	Asset Class	Commitment Amount
NJ High Point VC Fund L.P.	May 4, 2023	Private Equity	\$200,000,000
Khosla Ventures Seed F L.P.	May 5, 2023	Private Equity	\$20,000,000
Khosla Ventures Opportunity II, L.P.	May 5, 2023	Private Equity	\$100,000,000
Khosla Ventures VIII L.P.	May 5, 2023	Private Equity	\$80,000,000
American Industrial Partners Capital Fund VIII L.P.	May 31, 2023	Private Equity	\$150,000,000
West Street/NJ BSL Credit Partnership L.P.	May 31, 2023	Private Credit	\$1,000,000,000
Glendon Opportunities Fund III, L.P.	June 23, 2023	Private Credit	\$150,000,000
CVC Capital Partners IX, L.P.	June 30, 2023	Private Equity	€250,000,000
Barings New Jersey Emerging Manager Program, L.P.	July 6, 2023	Private Equity	\$250,000,000

Notification: Termination of RFP for Securities Lending Services

Background: The Division issued a Request for Proposals (“RFP”) for Securities Lending Services in 2018. The Division conducted extensive negotiations with the bidders, but did not make an award. The incumbent service provider, State Street Bank and Trust, has continued to provide securities lending services in the interim.

Notification: The Director determined, consistent with his fiduciary duties pursuant to N.J.S.A. 52:18A-89, that it was in the State’s interest to reject all proposals submitted in connection with the 2018 procurement, to terminate the 2018 procurement, and to issue a new RFP for Securities Lending Services.

Impact on Pension Fund: The Director believes that obtaining updated proposals for securities lending services will be advantageous to the Pension Fund.

The Director is notifying the SIC of this termination in accordance with the Division of Investment Procurement Procedures for Investment Advisers, Investment Consultants, and Securities Lending Agents.

Notification: Modification to Funds Managed by Dyal and Owl Rock/Blue Owl

Background: The Pension Fund has made commitments into a number of investments with Dyal Capital Partners (“Dyal”) and Owl Rock Capital Partners LP (“Owl Rock”). The Dyal investments include \$200 million to Dyal NJ Investors, L.P. in 2012, \$250 million to Dyal II NJ Investors, L.P. in 2014, \$200 million to Dyal III US Investors, L.P. in 2015, and \$100 million to Dyal III NJ Investors, L.P. in 2017. The Owl Rock investments include \$400 million to Owl Rock Capital Corporation in 2016, \$100 million to Owl Rock Capital Technology Finance Corp in 2018, and \$350 million to Owl Rock Diversified Lending 2020 Fund in 2022. In addition, the Pension Fund has an investment in certain Owl Rock management company entities (Blue Owl and Owl Rock Capital Diversified Holdings). In April 2021, the Dyal and Owl Rock management company entities merged to form Blue Owl Capital Inc.

As of May 31, 2023, the combined Dyal investments had a market value of \$594 million with \$327 million of unfunded commitments. The combined Owl Rock investments had a market value of \$470 million with \$184 million of unfunded commitments, excluding the value of any management company investments.

Modification: Blue Owl Capital Inc. announced on July 6, 2023 that it was rebranding the Dyal and Owl Rock investments. The Dyal fund investments were renamed as Blue Owl GP Stakes NJ I, Blue Owl GP NJ Stakes II, Blue Owl GP NJ Stakes III and Blue Owl GP Stakes US III. The Owl Rock fund investments were renamed as Blue Owl Capital Corp, Blue Owl Technology Finance Corp, and Blue Owl SL 2020 Fund.

Impact on Pension Fund: The Division does not anticipate that this renaming will have a material impact on the Pension Fund. Although the names are changing, the investment teams are not changing, nor are the terms of any of the respective agreements.

**The Director is notifying the SIC of this modification in accordance with the
Alternative Investment Modification Procedures**